

CITY OF LESTER

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

De Noble, Austin & Company PC
Certified Public Accountants
Rock Rapids, Iowa

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City of Lester

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Gerber	Mayor	January 1, 2016
Curtis Doorneweerd	Council Member	January 1, 2016
Jeff Hoogeveen	Council Member	January 1, 2016
Don Grems	Council Member	December 31, 2014 (Resigned)
Ladell Kellenberger	Council Member	January 1, 2016
Lance Boote	Council Member	January 1, 2018
Pam Hawf	Council Member	January 1, 2018
Christa Lee	City Clerk/Treasurer	Indefinite

City of Lester

DE NOBLE, AUSTIN & COMPANY PC

Certified Public Accountants

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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Lester for the period July 1, 2014 through June 30, 2015. The City of Lester's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014/2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation promissory notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested whether the new urban renewal area established during the fiscal year complied with applicable Code of Iowa sections.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed local option sales tax receipts to determine if the receipts were expended as required by local ballot provisions.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Lester, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lester and other parties to whom the City of Lester may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lester during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC

De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants

March 3, 2016

Detailed Recommendations

City of Lester

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Accounting System – performing all general accounting functions for the main financial records of the City.
 - (2) Cash - handling, reconciling and recording.
 - (3) Certificates of Deposit – recordkeeping, custody, and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Utilities – billing, collecting, depositing, posting, and maintaining detailed accounts receivable and bad debt records.
 - (6) Debt – recordkeeping, compliance and debt payment processing.
 - (7) Journal Entries – preparing and journalizing.
 - (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (10) Computer System – performing all general accounting functions and controlling all data input and output.
 - (11) Financial Reporting – preparing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials and volunteers. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The balances in the City’s general ledger/accounting system were not properly reconciled to bank and certificates of deposit balances every month throughout the fiscal year. The outstanding deposit and check listings generated by the accounting software were not always listed correctly. Also, there is no independent review of the monthly bank reconciliations and certificates of deposit.

Recommendation – The City should establish procedures to ensure bank and certificates of deposit balances are reconciled to the general ledger monthly. Outstanding deposit and check listings should be prepared to include all proper items at month end. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Lester

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (C) Management Financial Information – The Clerk’s financial reports to the City Council included cash balances and receipts and disbursements for the month, but did not include certificates of deposit balances, year-to-date comparisons to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers, and ending balance by fund for the fiscal year-to-date.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, in order to provide more detailed financial information, the monthly reports should also include the certificates of deposit balances and state the beginning balance, receipts, disbursements, transfers, and ending balance for each fund for the fiscal year-to-date totals.

- (D) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled monthly throughout the fiscal year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. A member of the City Council, or other independent person designated by the City Council, should review the reconciliations, document his or her review and monitor delinquent accounts.

- (F) Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared. This listing should be compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

- (G) Supporting Documentation - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for several transactions tested could not be located.

Recommendation - All disbursements should be supported by invoices or other supporting documentation. The invoices/supporting documentation should be retained by the City.

- (H) City Council Disbursement Approval – The City Council approves disbursements at each monthly meeting; however, on occasion, a disbursement was formally approved after an invoice had already been paid.

Recommendation – The City could consider adopting a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For any disbursements paid prior to City Council approval, a listing

City of Lester

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

should always be provided to the City Council at the next City Council meeting for review and approval.

- (I) Information Forms (Tax Related) – There were individuals who appear to have performed services for the City during 2014 that would have required a Form 1099 be sent to them for income tax reporting purposes; however, no Form 1099s were sent to the necessary individuals/businesses.

Recommendation – The City needs to develop procedures to ensure that all proper forms are issued in order to be in compliance with the Internal Revenue Service's reporting requirements.

- (J) Fund Reporting/Transaction Coding – Throughout our testing, several receipts and disbursements were found which appear to have been classified incorrectly. Also, we noted several disbursements which appear to have been paid from the improper fund.

Recommendation – The Uniform Chart of Accounts should be referenced for how to code City receipts and disbursements and what is the proper fund from which to pay a disbursement.

- (K) Payroll Procedures – Not all employees complete a timesheet and, when prepared, the timesheets did not include evidence of supervisory review or the employee's signature approving the time worked. The review and approval of wage and withholding rates entered into the payroll system are not performed by an independent individual. Additionally, the wages of employees were not approved by the City Council in the minutes.

Recommendation – All employees should complete a time sheet, which should be signed by the employee and reviewed and approved by supervisory personnel prior to processing payroll. Someone other than the employee entering the information should review and approve the wage and withholding rates entered in the payroll system. Additionally, all pay rates should be approved by the City Council in the minutes.

- (L) Separately Maintained Records: Cemetery Fund – The Cemetery Fund maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (M) Separately Maintained Records: City Fire Department – The Lester City Fire Department maintains a bank account for activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports, or Annual Financial Reports.

City of Lester

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (N) Accounting Policies and Procedures Manual – The City does not have a complete accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be continued to be developed by the City Clerk to provide the following benefits:

1. Aid in training additional or replacement staff.
 2. Help achieve uniformity in accounting and in the application of policies and procedures.
 3. Improve the accuracy of financial reporting.
- (O) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (P) Questionable Disbursements – During testing, we noted several instances of sales tax paid on purchases and an instance of a penalty (finance charge) paid. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979, since the public benefit to be derived has not been clearly documented.

Recommendation – The City Council should be careful that all invoices and reimbursements do not include sales tax and ensure that all payments are made timely to avoid penalties (finance charges).

- (Q) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dan Gerber, Mayor, Owner of DRG Mechanical, Heartland Hardware	Plumbing repairs	\$9,014.53
Robert Leuthold, Utility Employee, Family Owns Leuthold Plumbing & Heating	Sewer/Water maintenand	

City of Lester

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

In accordance with Chapter 362.5(k) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and some services were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (R) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund. The minutes were not being published in a qualifying newspaper – only on the City website. The monthly minutes reviewed did not include total disbursements from each fund. In addition, meeting minutes and resolutions were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should be sure they comply with the Code of Iowa and publish City Council minutes within fifteen days in a qualifying newspaper and include total disbursements by fund in the published minutes. In addition, all minutes and resolutions should be signed to authenticate the proceedings.

- (S) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, the resolution naming official depositories adopted by the City Council in February 1999 does not indicate the deposit limit in the approved banking institution for the checking and savings accounts and certificates of deposit as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve a specific amount deemed sufficient to cover anticipated balances in all accounts and certificates of deposit at the approved depository as required by Chapter 12C.2 of the Code of Iowa.

- (T) Long-Term Debt Issuance – On August 28, 2014, the City entered into a bank loan for \$194,263 for a new community center. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

- (U) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained for the year ended June 30, 2015 as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa, obtain surety bond coverage, and periodically review the coverage for adequacy.

City of Lester

Staff

This agreed-upon procedures engagement was performed by:

David De Noble, CPA, Senior Auditor
Kayla Reck, Assistant Auditor

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